Brussels, 10/03/2020

Cerame-Unie reply to public consultation on the ETS State Aid Guidelines review

Cerame-Unie and CET welcome the possibility of giving feedback to the draft ETS State Aid Guidelines in a public consultation.

Our industry is committed to maximizing its contribution to further decarbonise its production process. We believe that electricity will play an essential role in the efforts of manufacturing sectors to evolve towards decarbonisation. At the same time, future industrial investments in decarbonisation, which will entail greater electricity demand, may however be deterred in the absence of adequate compensation for indirect costs. This is why the ceramic industry has always argued that the two lists of sectors exposed to direct and indirect risks of carbon leakage should be established based on the same methodology and criteria in coherence with principles set in ETS Directive.

We would like to underline, that as according the ETS Directive, the **compensation for the indirect costs should be for all sectors exposed to the carbon leakage risk** and not only for the most exposed, what the Guidelines suggest. The criterion indicated by the ETS Directive to identify the sectors exposed to the risk of carbon leakage (art. 10b) is: Trade intensity * Carbon intensity > 0.2. The methodology for indirect quantitative carbon leakage assessment should use the threshold of 0.2 defined in the ETS Directive, without adding additional quantitative indicators. The **ceramic tiles sector (NACE 23.31) has an "indirect carbon leakage indicator-ICLI" of 0.225 and therefore qualifies** for indirect costs compensation.

Moreover, we would like to stress the importance of ensuring consistency in the method and criteria used for the direct and indirect carbon leakage lists. In this sense **all sectors above the threshold of 0.15 should have a chance to be assessed qualitatively**, as it is foreseen in the ETS Directive in case of direct carbon leakage. The role of qualitative assessments should not be undermined, as they are essential to prevent distortion of competition in the internal market and globally. The implementation and outcome of these qualitative assessments should be fully transparent.

We believe that at least one of the ceramic sectors, **wall and floor tiles sector (NACE code 23.31)**, should be going under the qualitative assessment, as it is above 0.2 threshold and was selected for the targeted consultations. The sector is highly exposed to the indirect carbon costs and connected with it indirect carbon leakage risks. You can find detailed argumentation in the attached study performed by PwC for the purpose of the targeted consultation of 2019 and completed by PwC for this consultation.

The sector fulfills two out of three quantitative criteria. Its trade intensity is around 40%, what is double the set 20% threshold. It also exceeds the combined (CO2 intensity * trade exposure) threshold of 0.2. The only threshold this sector does not meet is the indirect emission intensity of 1kg of the CO_2/GVA. However, as the ceramic industry is composed of many SMEs and is more labour intensive, such indicators as GVA (Gross Value Added) do not constitute a representative indicator of the profitability of the sector. Indeed, while labour costs represent 15% of the turnover of the ceramic tiles sector, labour costs only represent on average 7,6% of the turnover of sectors proposed to be eligible for compensation (as low as

2% in the case of Refined Petroleum Products (19.20)). GVA has never been a profitability indicator and its purpose it to illustrate the total economic contribution of a sector to society (hence including salaries of the workers). For sectors with proportionately higher labour costs, CO_2 intensity should be calculated by comparing CO_2 emissions with a real profitability indicator such as EBIT. **The use of such inappropriate indicator in the quantitative methodology makes it absolutely necessary to assess the wall and floor tiles sector through a qualitative assessment**.

In summary, the completed study by PwC makes the following assessment of the three qualitative criteria:

- **Market characteristics**: The wall & floor tiles sector has little possibility of transferring costs to customers due to low bargaining power and operating in a market with highly fragmented players, high competitiveness, strong presence of substitute products and pressure on domestic prices of extra-EU imports. Most importantly, almost all materials competing with ceramic tiles (e.g. vinyl tiles, linoleum, carpet) are downstream products of Refined Petroleum (19.20) which the draft ETS State Aid guidelines introduce as a new sector eligible to compensation. **Including sector 19.20 in the list of eligible sectors without including ceramic tiles (23.31) will lead to distortions of competition in the market for floor covering.**
- **Abatement potential**: This industry has long achieved high levels of energy efficiency and has implemented BAT to a large extent. It has limited potential to further reduce direct and indirect emissions by 2030. Electrification of processes is a long-term technology. There is ongoing research in more electro-intensive processes, for example: microwave-assisted heating, infrared heaters, etc. which provide some perspective for further electrification of the process.
- **Profitability**: Although this sector has increased its profitability since 2014, it has not been able to increase prices while production costs have constantly been increasing. Moreover, more **recent publicly available EBITDA and EBIT data show a sharp decrease of profitability since 2017, thereby bringing the profitability of the sector in the lower profitability range of the sectors identified as eligible to compensation under the draft ETS State Aid Guidelines.** The incidence of indirect carbon costs on the profitability of the ceramic tiles sector is expected to grow significantly in the coming years.

The presented argumentation shows that the ceramic tiles sector is highly exposed under each qualitative indicator. The study by ADE/Compass Lexecon in annex to the consultation on the draft State Aid Guidelines does not bring any element contradicting the findings by PwC.

Lastly, we would like to stress the need for consistency between the two lists, not only in the method but also in the level of transparency. For example, the “sector fiche”, on the basis of which the EC assessment was made, should have been made public ahead of the public consultations launch.

In attachment please find the extended assessment by PwC of the wall and floor tiles sector under the qualitative assessment criteria.

ABOUT CERAME-UNIE

Cerame-Unie, the European Ceramic Industry Association, is an umbrella organisation representing the European ceramic industry structured in nine ceramic subsectors and present in 30 European countries, including 26 EU Member States. The ceramic industry encompasses about 2,000 companies in the EU, comprising a large proportion of SMEs (80%) as well as international groups. In total the sector represents ca. 200,000 direct jobs across Europe and an annual production value of around € 30 billion.

ABOUT CET

Wall and floor ceramic tiles constitute the largest sector in terms of turnover among European ceramic industries with total sales exceeding € 10 billion. Production exists in the EU in Italy, Spain, Poland, Portugal, Germany, France, Czech Republic, Hungary, Romania, Bulgaria, the UK and the Netherlands. One third of the production in ceramic tiles is exported outside of the EU, resulting in a largely positive trade balance.